



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
GALLATIN COUNTY CLERK**

Calendar Year 2000

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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GALLATIN COUNTY CLERK

Calendar Year 2000

The Auditor of Public Accounts has completed the Gallatin County Clerk's audit for calendar year 2000. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Fee account balances decreased by \$8,312 from the prior calendar year, resulting in a cash surplus of \$1,051 as of December 31, 2000. Revenues increased by \$57,699 from the prior year and disbursements increased by \$66,011.

Report Comment:

The County Clerk's Office Lacks Proper Segregation Of Duties

Deposits:

The Clerk's deposits were insured and collateralized by bank securities.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable George Zubaty, Gallatin County Judge/Executive

Honorable Tracy Miles, Gallatin County Clerk

Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Gallatin County, Kentucky, for the year ended December 31, 2000. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2000, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable George Zubaty, Gallatin County Judge/Executive
Honorable Tracy Miles, Gallatin County Clerk Members of the Gallatin County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 28, 2001, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of internal control:

- The County Clerk's Office Lacks Proper Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 28, 2001

GALLATIN COUNTY
TRACY MILES, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2000

Receipts

State Grants

Library and Archives Indexing	\$ 3,884	
Library and Archives Microfilming	<u>3,428</u>	\$ 7,312

State Fees For Services		3,129
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Fiscal Court

Loan From Fiscal Court	\$ 10,000	
Election Workers	5,900	
Preparing Tax Bills	1,885	
Board of Appeals	<u>100</u>	17,885

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$ 172,853
Usage Tax	471,843
Tangible Personal Property Tax	470,696

Licenses-

Fish and Game	12,655	
Marriage	3,071	
Occupational	3,886	
Deed Transfer Tax	17,693	
Delinquent Tax	42,784	
Late Fees	<u>2,317</u>	1,197,798

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$ 8,565
Real Estate Mortgages	12,522
Chattel Mortgages and Financing Statements	23,371
Powers of Attorney	458
All Other Recordings	5,370

GALLATIN COUNTY
 TRACY MILES, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2000
 (Continued)

Receipts (Continued)

Fees Collected For Services (Continued)

Charges for Other Services-

Candidate Filing Fees	\$	530	
Copywork		10,185	
Miscellaneous		<u>41</u>	\$ 61,042

Other:

Overpayments			9,398
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Interest Earned			<u>778</u>
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Total Receipts			\$ 1,297,342
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Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	130,308	
Usage Tax		456,562	
Tangible Personal Property Tax		180,122	

Licenses-

Fish and Game		12,439	
Delinquent Tax		5,406	
Legal Process Tax		<u>8,462</u>	\$ 793,299

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	50,876	
Delinquent Tax		4,742	
Deed Transfer Tax		16,808	
Occupational Licenses		3,788	
Miscellaneous Refund		50	
Loan Repayment		<u>10,000</u>	86,264

Payments to Other Districts:

Tangible Personal Property Tax	\$	220,871	
Delinquent Tax		<u>22,038</u>	242,909

Payments to Sheriff			605
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GALLATIN COUNTY
 TRACY MILES, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2000
 (Continued)

Disbursements (Continued)

Payments to County Attorney	\$	6,075
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Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies Salaries	\$	53,768
Part-Time Salaries		1,617
Overtime Gross		810

Employee Benefits-

Employer's Share Social Security		8,798
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Contracted Services-

Advertising		136
Printing and Binding		1,621
Computer Services		2,400
Library and Archives Indexing		3,884

Materials and Supplies-

Election Expenses		574
Misc Supplies		5,027

Other Charges-

Conventions and Travel		1,790
Dues		350
Postage		4,343
Telephone		2,431
Refunds for Cancelled Transactions		1,526
Refunds for Overages		9,247
Miscellaneous		410
Preparing Tax Bills		1,120
Bad Checks		120
Election Workers		5,505

Capital Outlay-

Office Equipment	\$	994	
Library and Archives Equipment		3,428	\$ 109,899

Total Disbursements			\$ 1,239,051
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GALLATIN COUNTY
 TRACY MILES, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2000
 (Continued)

Net Receipts		\$	58,291
Less: Statutory Maximum	\$	52,246	
House Bill 810 Training Incentive		<u>1,394</u>	<u>53,640</u>
Excess Fees		\$	4,651
Less: Expense Allowance			<u>3,600</u>
Excess Fees Due County for Calendar Year 2000		\$	1,051
Payments to County Treasurer - April 9, 2000			<u>1,314</u>
Overpayment of Excess Fees		\$	(263)
Refund Received From Fiscal Court May 24, 2001			<u>263</u>
Balance Due at Completion of Audit		<u>\$</u>	<u>0</u>

The accompanying notes are an integral part of the financial statement.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2000.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
December 31, 2000
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2000, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

Note 4. Library and Archives Grants

During calendar year 1999, the County Clerk received two local records microfilming grants from the Kentucky Department for Libraries and Archives. One grant in the amount of \$5,600 was to provide funds for persons to input indexes into an automated indexing system. There was an unexpended balance of \$3,871 as of December 31, 1999. During calendar year 2000 interest of \$13 was earned on this account and \$3,884 was expended leaving no unexpended balance as of December 31, 2000. The second grant in the amount of \$7,893 was for microfilming and records retrieval equipment. There was an unexpended balance of \$3,435 as of December 31, 1999. The clerk's office received \$2,511 and the account earned \$42 of interest. Funds totaling \$3,428 were expended during calendar year 2000 leaving an unexpended balance of \$2,560 as of December 31, 2000.

Note 5. Operating Lease

The office of the County Clerk is committed to a lease agreement with Triple M Business Products for two copiers. The agreement requires a monthly payment of \$140 for 60 months to be completed on January 18, 2005. The total balance of the agreement is \$6,720 as of December 31, 2000.

COMMENT AND RECOMMENDATION

GALLATIN COUNTY
TRACEY MILES, COUNTY CLERK
COMMENT AND RECOMMENDATION

Calendar Year 2000

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The County Clerk's Office Lacks Proper Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. The Auditor of Public Accounts has judged the lack of an adequate segregation of duties as a reportable condition.

County Clerk's Response:

The office and budget are too small to be able to adequately segregate duties.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Gallatin County Clerk for the year ended December 31, 2000, and have issued our report thereon dated June 28, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Gallatin County Clerk's financial statement for the year ended December 31, 2000, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gallatin County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The County Clerk's Office Lacks Proper Segregation of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above, to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 28, 2001

